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## MANY MISSED OPPORTUNITIES FOR CONGRESS AND THE PRESIDENT IN 2007

Over recent months, federal policymakers considered measures to expand children's health coverage, strengthen Medicare, make new investments in areas like education and medical research, and extend tax relief — while maintaining fiscal discipline. Congress and the President ultimately failed to agree on the first three of these items, however, and the fourth (Alternative Minimum Tax relief) was enacted only after Congress bowed to the President's demand that it *not* be paid for.

Apart from the AMT, Congress lived up to its “pay-as-you-go” pledge in 2007, finding ways to pay for legislation ranging from the energy bill to improvements in student financial aid. The net cost this fiscal year of all tax and entitlement legislation Congress enacted was \$47 billion (\$51 billion in costs for the AMT bill minus \$4 billion in net savings from other legislation). While a substantial amount, that is still a vast improvement over the nearly \$1.3 *trillion* in unpaid-for tax cuts and entitlement increases Congress enacted over the 2001-2006 period.

Unfortunately, the clear winners in the final weeks of budget deal-making were large health insurance companies that will retain their billions of dollars in Medicare overpayments and wealthy hedge-fund and equity fund managers who will retain their lucrative tax loopholes. The losers were uninsured children, whose ranks will now increase, and future generations, which will have to pay the costs of higher deficits.

### **AMT Relief: Expanding the deficit rather than closing high-income tax shelters.**

- Earlier this month the House passed a bill to extend relief for one year from the Alternative Minimum Tax (AMT) for upper-middle-income taxpayers. The bill would have paid for this extension in substantial part by closing a tax loophole that enables wealthy hedge fund managers to defer compensation tax free in offshore tax havens.
- The Administration and many congressional Republicans argued that AMT relief should be extended but *not* paid for. Senate Minority Leader McConnell termed the idea of offsetting AMT relief “offensive.”
- This week the House, faced with no viable alternative, reluctantly went along with the Senate and approved an unpaid-for AMT extension, which will add \$51 billion in deficits this fiscal year. If AMT relief is extended each year for the next decade but not paid for, it will add up to \$1.3 *trillion* in deficits.
- There are no free lunches. If the nation doesn't pay for extending AMT relief now, it will have to later, through tax increases and/or spending cuts that are likely to affect millions of ordinary working families.

### **Medicare: Protecting overpayments to private insurers rather than strengthening the program's long-term finances.**

- Although private “Medicare Advantage” insurance companies were brought into Medicare to *lower* costs, both CBO and the Medicare Payment Advisory Commission (MedPAC) — Congress’ own expert advisory body on Medicare payment policy — have found that they receive *12 percent more*, on average, than it would cost traditional Medicare to cover the same people. MedPAC has unanimously recommended that Congress curb these overpayments, and has warned that failure to do so threatens Medicare’s financial stability.
- Similarly, CBO has reported that the Medicare Advantage overpayments will total \$54 billion over the next five years and \$149 billion over ten years. If not addressed, the overpayments will accelerate Medicare’s insolvency and ultimately necessitate much larger benefit cuts and/or tax increases than would otherwise be needed to restore financial stability to the program.
- In July the House passed legislation to eliminate the overpayments and make other improvements in Medicare, especially for low-income beneficiaries. In recent weeks, Democratic and Republican members of the Senate Finance Committee negotiated a modest scaling back of the overpayments to help offset the cost of legislation to avert a scheduled cut in Medicare physician fees. But the President vowed to veto the bill if it contained any Medicare Advantage savings, many Republican members of Congress registered opposition to any such savings, and Congress ultimately passed a physician fees bill without them.

### **Children’s Health: Restricting coverage rather than expand it.**

- This summer the House and Senate passed bipartisan bills to provide about 4 million uninsured children with health coverage by 2012 under the State Children’s Health Insurance Program (SCHIP) and Medicaid. Both bills were fully paid for, through an increase in tobacco taxes and, in the case of the House bill, the elimination of Medicare Advantage overpayments (see above).
- The President vetoed two different versions of bipartisan SCHIP legislation and vowed to veto any children’s health bill financed by increased tobacco taxes. Congress was forced to pass an SCHIP renewal bill that doesn’t give states the funds they need to strengthen their programs.
- Meanwhile, tens of thousands of children risk *losing* SCHIP coverage as a result of an Administration directive issued in August, which effectively prevents states from providing SCHIP coverage to children in families above 250 percent of the poverty line. Nearly half of the states will be affected, since they already cover children above this level or have approved plans to do so.

### **Domestic Appropriations: Making cuts rather than needed investments.**

- At the President’s insistence, Congress cut billions of dollars in funding for domestic appropriated programs it had planned to provide for 2008. For some programs, Congress eliminated proposed funding increases; for others, it reduced funding below the 2007 level, adjusted for inflation.
- The programs affected include Head Start, which will be cut by an amount equal to the cost of serving 26,500 children. When combined with cuts made in previous years, this means Head Start funding will have declined 11 percent since 2002, after adjusting for inflation. Local Head Start programs must deal with funding cuts by serving fewer children, reducing teacher salaries,

scaling back educational and health services, and/or cutting back on classroom materials.

- Other areas cut for 2008 include medical research at the National Institutes of Health and the Environmental Protection Agency, each of which faces roughly half a billion dollars in cuts, after adjusting for inflation. The EPA budget has fallen by more than one-fifth since 2004.